# Who are the losers and winners from the EU immigration flows?

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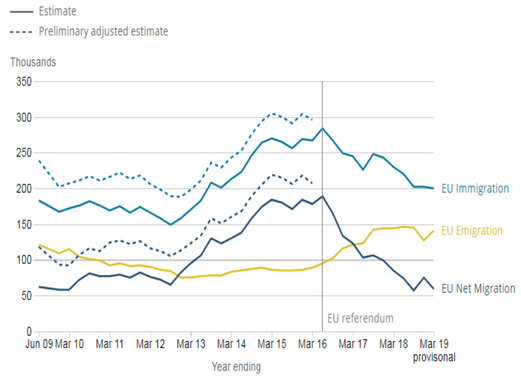
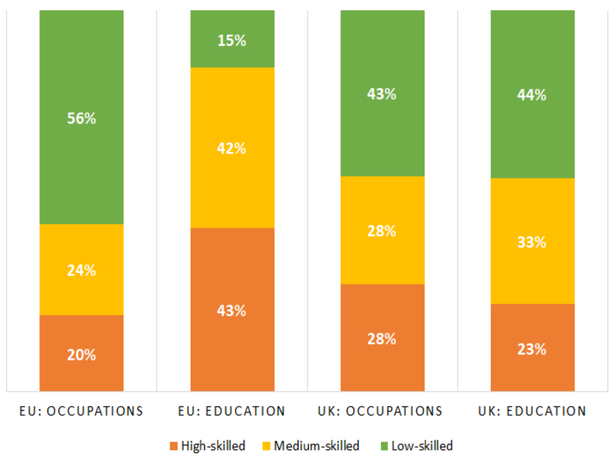
## Motivation

- 258 million of people living outside of their country, 50% from OECD countries.
- the US, UK, Canada and Australia receive 70% of high-skilled immigrants in the OECD countries.
- The proportion of highly educated workers is higher among immigrants than natives.
- **Brexit is threatening the free movement of labour into the UK.**




**Source: Office for National Statistics - Long-Term International Migration**




## Aim of the Paper

- We examine the effect of EU migration flows into the UK economy on the main macro variables such as wages, consumption, investment and output per capita.
- We explore the migration shock benefits for workers at three skill levels (high, medium and low).
- We extend the model to account for the complementarities between capital and high-skilled labour.

## Model

- We extend Canova and Ravn (2000) model in two directions:
  i) Break down labour in three skill levels
  ii) We incorporate capital-skill complementarity using a CES function.

$$Y_t = Z_t \left[\alpha S_t^{\rho} + (1-\alpha)\, H_t^{\rho}\right]^{\frac{1}{\rho}}$$

$$H_t = \left[\omega (H_t^u)^{\rho_h} + (H_t^l)^{\rho_h}\right]^{\frac{1}{\rho_h}}$$

$$S_t = \left[\lambda_k K_t^{\rho_k} + (1-\lambda_k)\,(H_t^s)^{\rho_k}\right]^{\frac{1}{\rho_k}}$$

- Law motion of the labour force

$$N_t = N_{t-1} + N_{m,t}$$

where $N_{m,t}$ is the size of the newcomers or immigrants at $t \geq 1$.

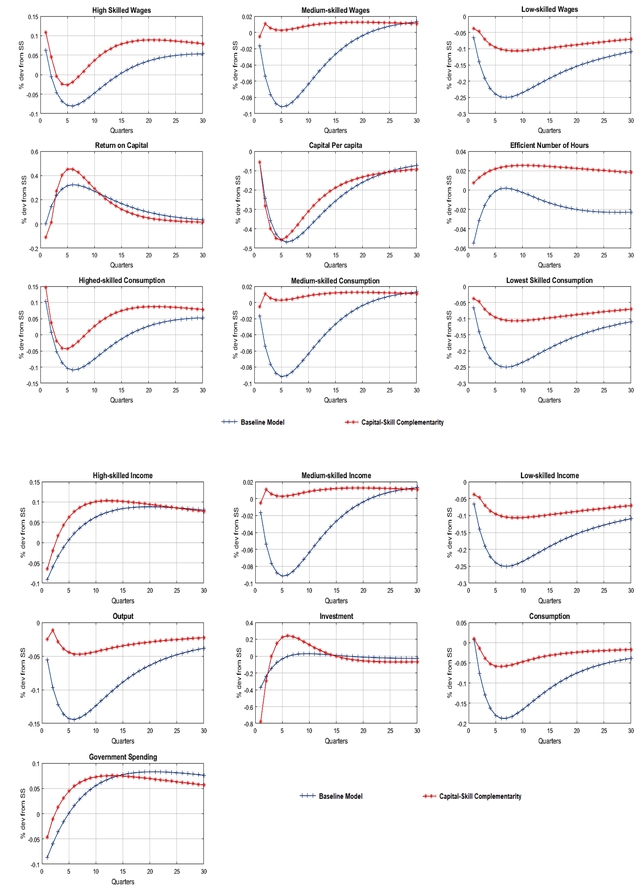
$$N_t^s = (1-\pi)\, N_{t-1}^s + \pi p_s N_{t-1} + \lambda_s N_{m,t}$$

$$N_t^u = (1-\pi)\, N_{t-1}^u + \pi p_u N_{t-1} + \lambda_u N_{m,t}$$

$$N_t^l = (1-\pi)\, N_{t-1}^l + \pi\,(1-p_s-p_u)\, N_{t-1} + (1-\lambda_s-\lambda_u)\, N_{m,t}$$

| Model | Welfare gain $\Omega$ | | |
|---|---|---|---|
| | High-Skilled | Medium-Skilled | Low-Skilled |
| Transitory Immigration Shock | | | |
| Baseline model | 0.0212 | 0.0086 | -0.0362 |
| Capital-Skill Complementarity | 0.0233 | 0.0020 | -0.0149 |

## Macroeconomic effects




## Conclusions

- EU immigration flows benefit high-skilled and medium-skilled workers while the effect turns negative for low-skilled workers.
- When we take into account capital skill complementarities, the losses for low-skilled workers are significantly less compared to the baseline scenario.
- Counting for capital-skill complementarity, the welfare gains extend to middle skill workers.